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SUBJECT: CHINA WANTS TO IMPROVE ECONOMIC TIES WITH JAPAN

¶1. (SBU) SUMMARY: Senior Chinese Officials told Trade Minister Nikai that China was concerned the political chill might begin to affect bilateral economic ties, Trade Policy Director General Kitamura told A/DCM on February 24. Although Premier Wen Jiabao, Commerce Minister Bo Xilai and State Councillor Tang Jiaxuan each raised Yasukuni issues in separate meetings with Nikai, they quickly moved on to economic issues on the agenda, according to Kitamura who accompanied the Minister to Beijing. They each told Nikai that China wanted to intensify senior-level government-to-government talks. The Commerce Minister proposed that Japan and China work on a joint "mid-to-long-term economic vision" and Premier Wen suggested that Japan and China meet at the Director General-level in March to discuss how to develop energy resources in the East China Sea. Both sides, Kitamura explained, reiterated the desire to resolve this dispute through dialogue. They also agreed to talks on energy and the environment. Minister Nikai raised many bilateral trade issues like IPR, and auto tariffs. Although they did not make much progress on these trade issues, Kitamura said, the talks were positive in that China was clearly signaling the desire to intensify economic discussions at the Minister level and below. Kitamura also said METI wanted to continue to exchange information and coordinate positions with the United States lest China attempt to exploit differences in our approach. END SUMMARY.

¶2. (SBU) China clearly signaled it was concerned that the cool political relationship between Japan and China might begin to damage the economic relationship, Ministry of Economy Trade and Industry METI) Trade Policy Director-General Toshiaki Kitamura told A/DCM on February 24. Chinese officials raised the issue of PM Koizumi's visits to Yasukuni Shrine in every meeting, but they kept to previous statements and did not make any new demands. Premier Wen Jiabao, State Councillor Tang Jiaxuan and Commerce Minister Bo Xilai all underlined that they were afraid that the current situation could adversely affect Japan-China relations, quoting actual trade and investment figures. In response, Nikai emphasized the importance of enhancing mutual understanding through more bilateral dialogue and exchanges and by developing a more future-oriented Japan-China relationship.

¶3. (SBU) Kitamura foresees that METI and China's Ministry of Commerce will take the lead in developing a forum for dialogue on a "mid-to-long-term economic vision," and that Kitamura himself is likely to be assigned this issue. He noted that China originally proposed the idea, so, at this point, METI can offer no details on the proposal. But the GOJ agreed to China's suggestion because it might provide a good forum for dialogue on a range of issues.

¶4. (SBU) The two countries also agreed to set up forums on

energy conservation and environmental issues, and to resume expert-level talks on the East China Sea in March. According to Kitamura, China sees the East China Sea issue as more of a territorial dispute than an energy dispute, as evidenced by the fact that China's Ministry of Foreign Affairs (MOFA) is taking the lead on the issue. For Japan, its MOFA Asia Director-General Sasae and METI's Energy and Natural Resources Agency Director Kodaira will co-chair. Kitamura was certain that very high level Chinese officials had expressed a strong desire to resolve the problem peacefully and amicably through dialogue.

15. (SBU) METI Minister Nikai talked to China's Minister of Commerce Bo Xilai also about its auto parts/IPR complaints. (Note: Japanese automakers, particularly Honda, have complained about counterfeit auto parts made and sold in China.) Bo seemed prepared for these discussions and rebutted Nikai's arguments at length.

16. (SBU) In summing up, Kitamura stated that the USG and GOJ should intensify exchanges of information and views on China's trade, economic and energy policies. Kitamura believes that now is the time for the US and Japan to start regularly exchanging views on China economic issues at a high level in order to avoid presenting China with opportunities to exploit the differences in our approaches. He welcomed next week's visit of USTR General Counsel Mendenhall to discuss China issues.
SCHIEFFER